

Comments made by David Dinning, General Manager of Victorian Credit Co-operative Association on a speech presented by Mr. Michael Eyres, Consultant to the Financial Institution Review Committee at a Conference on Co-operation held on Saturday, 23rd June, 1984.

The three major points made by Michael in his address could be summarised as follows:

1. The need for Co-operatives to properly capitalise their system.
2. The need for financial co-operatives to build strong system structures.
3. The need for financial co-operatives to become more involved in financing the wider co-operative movement.

#### Capitalising The System

Michael references the difficulty in raising permanent capital; he comments quite rightly, that being under capitalised is not what co-operatives are all about. He suggests that we need to give contributors of permanent capital greater recognition, perhaps by way of guaranteeing a Board position.

This is a pretty radical comment because one of the basic co-operative principles is one member, one vote, and you then have to question whether this is a true reflection of this principle if Board positions are guaranteed to those share holders that hold larger amounts of capital.

I believe that to tackle this problem requires two things:

1. Commitment
2. Innovation

Financial co-operatives in particular have been guilty of not creating proper member awareness of the principles of co-operation and the basis on which their co-operative is operated. They've done a good job in establishing a customer relationship with their members by developing attractive and competitive services compared with the market place, but they have not endeavoured to build member commitment to the co-operative and what it stands for and what it is attempting to achieve.

For example, the share capital which was subscribed by new members to financial co-operatives when they started over twenty years ago was most often ten dollars. Now we find that most credit unions still only require a share capital commitment of ten dollars even though if inflation had been applied to this basic ten dollars over the same period of time, it would probably be worth at least \$30 now.

We therefore need to educate our members in the principles of co-operation; to place a new emphasis on the fact that membership of a co-operative, whilst bestowing benefits and privileges, also requires commitment and responsibility.

I am sure there are innovative ways of providing incentives for members to take up further shareholding; perhaps by way of bonus shares with some financial recognition for the risks involved.

Also, I believe that government should look at providing incentives for people to take up more shareholding in co-operatives.

For example, if tax incentives were provided whereby the return earned on equity investment in co-operatives was not included as assessable income, then this could be one way of encouraging this type of investment.

#### Building A Strong System Structure

Michael comments that we can no longer pretend that small institutions can survive unsupported. He uses the aesop's fable metaphor " a single stick can't wave about if it's part of a bundle". I would wholeheartedly agree with his comments as I believe that the only way that the credit co-operative movement in particular, can expect to survive and prosper, is for all societies be part of a strong central system.

To do this requires discipline. I am often fascinated that although we espouse the principles of co-operation and encourage the practice of co-operation amongst our members, once co-operatives get together at a local, state or national level, the same degree of co-operation is not evident and a very selfish and introspective view is taken by many co-operatives at these levels. Certainly we have some problems that have to be faced up to if we are to build a strong system.

We must firstly discipline our feelings towards each other. We are not going to like everyone we work with in the co-operative movement but we must always submerge our differences and work for the total good of the movement. I know in our particular sector, there has been an inability on the part of a number of people to forget the past and look to the future. Certainly mistakes have been made and a price has been paid but dwelling on past mistakes is not helping us solve the problems of the future.

As mentioned earlier a big problem is that many societies adopt a very selfish and introspective approach to participating in and seeking benefits from the next tier of the system. They tend to want the best of both worlds i.e. they want the benefits of protection that is provided by a total co-operative system but are not prepared to contribute towards the cost of building the system. In fact I would challenge Michael's comment that it should be mandatory for credit Co-operatives to establish liquidity support arrangements with the VCCA Central Financial Facility without, at the same time, requiring a certain level of deposit by those credit unions with the facility in order to ensure that funds are available to provide this very liquidity support. It cannot work properly unless there is deposit investment support by credit co-operatives in addition to providing liquidity support for them.

Why the need for a strong central system ? Well I believe only a strong central system is capable of mobilising the best resources in the most efficient manner in order to develop new products and to meet the demands of new technology. There is a urgent need for us to develop research skills and these can only be afforded if the system collectively pays for them.

Also, a properly established system will be capable of developing and delivering high cost services such as the new EFT Technology at a reasonable price to even very small units. This is the only way that small individual credit co-operatives can expect to be able to access this new high cost technology which is going to be necessary if they are to remain competitive and meet their members' needs.

Becoming More Involved With The Wider Co-operative Movement

Michael also comments on the need for financial co-operatives to become more involved with the broader co-operative sector. Again I'd fully support his comments but suggest that to do this requires vision on our part. We need to look beyond present problems and to realise that it is essential for us to develop a whole new market for our products. It is not an option to continue to simply operate in the personal financial sector and attempt to beat our opposition (in particular the banks), on the basis of price, as they have resources that will easily put us out of business. The profit of the largest private bank in Australia is greater than the total assets of our largest credit union and this surely gives some indication of the resources available to the banks if they really wanted to put us out of business.

Therefore, we need to create new markets for financial co-operatives and the obvious place to look is in the broader co-operative sector. The VCCA has already taken initiatives to develop relationships with government and with the Co-operative Federation of Victoria with a view to providing financial services to these bodies. It will require government support and encouragement for us to develop this role. Also I believe that the State Bank can play a significant part in facilitating this development by ensuring that the non-bank financial institutions in Victoria are provided with the banking services which they are seeking, in order to be able to provide the whole range of financial services to the co-operative sector. I challenge the government to ensure that the State Bank plays an important role in assisting financial co-operatives to develop in this way.

It certainly makes sense that credit co-operatives being the collectors of funds from the household sector, should first re-circulate this money to the rest of the co-operative sector before having it distributed into the wider financial system. As a very important part of the co-operative movement we have this responsibility

### Summary

What we need to do if we are to accept the challenges being put before us today is to:-

- (i) Make a commitment to educate our members so that they better understand their responsibilities as members of co-operatives.
- (ii) Give a commitment to exercise discipline on the part of key people in the co-operative movement, so that they work together to build a strong system to help co-operatives operate more efficiently.
- (iii) Become visionary. Vision implies decisive action and taking some risks. If we don't do this we will be left behind and the opportunity before us now will be lost.

By taking up the challenges contained in the financial institutions review recommendations and applying the above principles we will be able to truly offer the co-operative sector as a third economic force in this country.

